Zoning: Can a Barrier to Entry Open a Road to Educational Gains?

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Advocates of regional government often target New England's fragmented system of municipal government, blaming local "home rule" for educational disparities, unequal tax burdens, and restrictive zoning that limits mobility, hikes commuting costs, and hampers efficient matching of workers and jobs. But, like most durable institutions, Connecticut-style local government has its benefits and costs, and there may be sensible ways to improve that balance by rewarding less restrictive zoning.

A Tale of Two Towns

Non-New Englanders often picture Connecticut as a small, quaint, mostly wealthy state that serves as New York's bedroom suburb and a haven for late night talk-show hosts. What they (and many of us) often overlook is the remarkable diversity of Connecticut's 169 towns and its 3.5 million residents. This diversity is seen in local policy choices about education, taxes, and zoning.

Education is the big reason why many folks cherish and defend "home rule." Apart from a handful of regional districts, each Connecticut town is largely responsible for financing and operating its own school system. This decentralization, coupled with New England's town meeting tradition, gives residents some control over the quality of their schools. But available resources temper the common desire for better education.

Connecticut towns rely heavily on local property taxes to fund education, but because the per capita market value of property varies 12-fold across towns—from $39,601 in New Britain, Hartford's blue-collar suburb, to $477,743 per person in well-heeled Greenwich—the effective property tax rate needed to generate revenue for schools and other public services also varies.

Compared with poorer towns, wealthy towns can typically spend *more* per pupil with *lower* tax rates. New Britain residents, for example, pay $29.29 per $1,000 of market value to finance school outlays of $9,791 per pupil, while Greenwich residents, because of the much larger tax base per head, pay only $7.30 per $1,000 of market value to fund spending of $12,438 per pupil.

Greenwich is a costlier area, so its higher spending does not guarantee more teachers, better facilities or higher-quality programs. But such spending gaps, some even larger, remain a concern, especially when school performance also differs sharply. Averaging the percentages of 4th grade students exceeding state goals on the reading, writing, and math components of the 2002 Connecticut Mastery Test (CMT), New Britain's figure (29.0%) was little more than a third of the figure posted by Greenwich (83.6%), and again there are even larger differences among the state's towns.

Like many states, Connecticut has enacted policies to trim differences in school spending, and these state programs intentionally direct resources to less wealthy towns: New Britain's state aid per capita ($1,194) is more than four times the amount for Greenwich ($284). But such attempts to level the fiscal playing field have failed to close the wide gaps in educational performance.

A Tale of Many Towns

It's tempting to blame unequal school spending for the large differences in test scores. Many people do, and they often advocate even stronger "equalization" formulas for state aid to towns, or perhaps even a complete shift of educational funding from towns to the state level. But, such a shift faces two major criticisms. *First*, it ignores some basic advantages of providing public services locally, including the many options offered to households searching for a place to live and the potentially "healthy competition" among local governments seeking to establish a politically attractive tax-spending mix.

Second, a funding shift to the state level would do little to eliminate a fundamental source of unequal school performance: socioeconomic differences between communities. Previous studies of education published in *The Connecticut Economy* (Spring 1997, 1998, and 2002) suggest that as much as two-thirds of the variation in test scores can be traced to socioeconomic differences—per capita income, average educational attainment of adults, percentage of children speaking a non-English home language, etc. This strong link between socioeconomic factors and student performance has implications for educational policy. In particular, if socioeconomic conditions are so important, long-term gains in school performance may require greater mobility and less geographic isolation of poorer households, not simply more school resources. But, this is where zoning might play a pivotal role.

Zoning serves several purposes. In more rural areas, unserved by city water and sewer systems, large lots may be essential for *health* reasons—a way to ensure that each home's well and septic tank are safely separated. Some economists also have described the *fiscal* motive for zoning—a way to ensure that each household pays some minimum amount of property taxes to support schools and other public services. But, others have pointed out that zoning may have more *discriminatory* motives or effects. Requiring larger lots and houses, or limiting new multi-family units, boosts the "entry fee" for potential residents.

Intended or not, zoning probably limits mobility, especially for poorer households. And this, in turn, may confine low-income households to towns where socioeconomic conditions impair the quality of education, further restricting their long-term mobility.

Does Zoning Really Matter?

A low-income household hoping to live in a town with good schools faces obstacles, including the price of housing. Exceptions may exist, but towns with better schools often have more costly homes: the correlation between average 4th grade CMT scores and the median house value per room is 0.46. Still, a poor household might be willing to consume a small quantity of housing in a high-cost town to secure access to better schools, but this is precisely where zoning limits choices. If the town has used zoning to tightly restrict multi-family units or to limit available options to big homes on big parcels, the low-income household will be effectively barred. Defenders of large-lot zoning, of course, might quickly argue that such rules ensure that each household has enough property to generate needed tax revenue for schools and other local services, or that such zoning preserves environmental attributes of the town by maintaining lower population densities.

Housing prices and zoning, though, are not the only things that affect residential choices. Another deterrent to the entry of low-income households would be higher property tax rates. On the other hand, both per pupil school spending and per capita spending on non-educational services should be attractive features. Thus, the location decisions of low-income households and the resulting geographic pattern are influenced by a number of town-level characteristics, making it more difficult to assess the role of zoning or any other single factor. But this is a common problem in analyzing data, so economists and statisticians have developed ways to handle it. The most common approach, multivariate regression, can be used to estimate the impact of each factor on the variable of interest, while statistically controlling for the other factors.

Applying regression analysis to Connecticut town-level data, we have estimated the impact of five factors—the local price of housing (median house value per room), zoning (minimum lot-size), local property taxes (equalized mill rate), school spending per pupil, and non-educational spending per capita—on the percentage of the town's households with incomes below $50,000, as reported in the 2000 Census. The table below summarizes the qualitative results.

The percentage of households with incomes below $50K varies considerably across Connecticut towns, from 12.9% in Weston to 78.7% in Hartford (see pp.10-11). The five variables in the table account for about 58% of this variation, so other factors also play a role. As expected, higher housing prices, higher minimum lot-size requirements, and higher taxes all tend to reduce the percentage of low-income households in a town, while both types of public spending—educational and non-educational—tend to attract low-income households, controlling for the other factors. Each result is statistically significant, except for the property tax effect.

So, just how much does zoning limit the access of lower-income households? Based on the regression, a one-acre higher minimum lot-size tends to reduce the "average" town's percentage of households with incomes below $50K from 40% to about 38%. This change (two percentage points or 5 percent) may not seem large, but keep in mind that nearly all towns, not just a few, have minimum lot-size requirements and an array of other restrictions (minimum square footage for homes, road frontage requirements, etc.) that "up the ante" and limit access. The collective effect on the geographic distribution of the poor may be substantial. It's also likely that the lower the income group, the larger the "deterrent effect" of zoning.

Furthermore, when one town tightens its zoning by, say, boosting the minimum lot-size, nearby towns often feel compelled to follow. This "policy spillover" can lead to overly restrictive zoning. Towns in an area might not be financially harmed very much if barriers could be simultaneously lowered, but there's no incentive for any one town to "lead the way" by unilaterally relaxing its zoning, and we currently lack a mechanism to induce towns to jointly drop the bar.

Can Access Be Improved?

Attempts have been made to increase residential options for low-income households, including the formation of voluntary coalitions among towns in a region. In theory, member towns would jointly relax zoning restrictions or expand low-income housing, reducing the cost of such policy changes to any one community. In practice, though, such coalitions usually fall well short of goals and dissolve due to lack of enforcement and disagreements about how member towns should share the burden of zoning changes.

One approach that may hold promise is in modifying state aid formulas to reward towns that relax zoning restrictions. State aid formulas commonly favor towns that have larger populations, lower incomes or property wealth, and greater local "tax effort," so expanding such formulas to reward towns that enhance living options for low-income households, by easing zoning restrictions, is not far-fetched. As always, the politics of such changes are complex, but rewards for less restrictive zoning might find political support if the link between local land-use policies and long-term educational gains were better understood.

Expensive Housing and Restrictive Zoning Deter Lower-Income Households

Sources of Variation in Percentage of Households with Incomes <$50,000	Estimated Effect	Statistically Significant
Price of Housing	negative	*
Zoning	negative	*
Property Taxes	negative	
School Spending Per Pupil	positive	*
Non-educational Spending Per Person	positive	*